



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
GRAVES COUNTY SHERIFF**

Calendar Year 1999

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY

GRAVES COUNTY JOHN L. DAVIS, SHERIFF CALENDAR YEAR 1999 FEE AUDIT

Description of Office:

The office of the County Sheriff is mandated and regulated by state laws and regulations. The Sheriff has been charged with the responsibility of collecting taxes and providing protection to the public.

Audit Results:

The Auditor of Public Accounts has issued an unqualified opinion on the Graves County Sheriff's financial statement for the period January 1, 1999 through December 31, 1999. An unqualified opinion is an opinion issued when the auditor, based on the audit work performed, believes the financial statement of the auditee is presented fairly in all material respects.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following areas of noncompliance:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$945,877 To Protect Deposits
- The Sheriff Should Have Maintained Adequate Accounting Records Required By The Uniform System Of Accounts Established Under The Authority Of KRS 68.210

Statement of Receipts, Disbursements, and Excess Fees:

The financial statement of the Graves County Sheriff for calendar year 1999 reflects excess fees of \$5,035 paid to the county.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Graves County Kentucky, for the year ended December 31, 1999. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 1999, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following areas of noncompliance:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$945,877 To Protect Deposits
- The Sheriff Should Have Maintained Adequate Accounting Records Required By The Uniform System Of Accounts Established Under The Authority Of KRS 68.210

In accordance with Government Auditing Standards, we have also issued a report dated July 25, 2000, on our consideration of the County Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 25, 2000

GRAVES COUNTY
JOHN L. DAVIS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1999

Receipts

Federal Grants		\$	93,275
State Grants			29,681
State Fees For Services:			
Finance and Administration Cabinet	\$	19,897	
Cabinet For Human Resources		13,568	33,465
Circuit Court Clerk:			
Sheriff Security Service	\$	11,537	
Fines and Fees Collected		1,460	12,997
Fiscal Court			8,185
County Clerk - Delinquent Taxes			7,959
Commission On Taxes Collected			243,051
Fees Collected For Services:			
Accident and Police Reports	\$	482	
Auto Inspections		16,760	
Dog Licenses		86	
Sea Board Farms Security		2,191	
Serving Papers		41,094	
Sheriff's Add On Fees - 10% Penalty and Fees		38,553	99,166
Carrying Concealed Deadly Weapon Permits			8,835
Deputy Reimbursements:			
Gasoline on Vehicles	\$	20,879	
Uniforms		1,197	
Guns		1,038	23,114
Miscellaneous			1,191
Interest Earned			404

GRAVES COUNTY
 JOHN L. DAVIS, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1999
 (Continued)

Receipts (Continued)

Borrowed Money:	
State Advancement	\$ 180,000
Gross Receipts	\$ 741,323

Disbursements

Operating Disbursements:

Personnel Services-		
Deputies' Salaries	\$ 290,183	
Transporting Prisoners	23,231	
Employee Benefits-		
Employer's Share Social Security	19,349	
Contracted Services-		
Advertising	35	
Miscellaneous	480	
Materials and Supplies-		
Office Materials and Supplies	12,265	
Uniforms	1,884	
Auto Expense-		
Gasoline	25,403	
Maintenance and Repairs	98,091	
Other Charges-		
Carrying Concealed Deadly Weapon Permits	4,255	
Dues	846	
Postage	6,691	
Canine	1,039	
Bond	1,292	
Out of County Fees	460	
Miscellaneous	10,956	
Debt Service:		
State Advancement	180,000	
Total Disbursements		676,460
Net Receipts	\$ 64,863	
Less: Statutory Maximum		59,828
Excess Fees Due County for Calendar Year 1999	\$ 5,035	
Payments to County Treasurer - February 22, 2000		5,035
Balance Due at Completion of Audit	\$ 0	

The accompanying notes are an integral part of the financial statement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 1999
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 8, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$945,877 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 8, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 2,007,360
Uncollateralized and uninsured	<u>945,877</u>
Total	<u>\$ 2,953,237</u>

Note 4. Special Fund

On February 5, 1999, the Sheriff of Graves County created a Special Fund to further develop the image of the Sheriff's office as long as it doesn't supplant the budgeted items in the fee account. Receipts for this fund come from donations and court ordered payments. During 1999, \$17,947 was receipted in and \$12,752 was expended, leaving a balance of \$5,195 as of December 31, 1999.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1999
(Continued)

Note 5. Legal Suit

Suit has been filed in the United States District Court for the Western District of Kentucky by Roger Ogg, Melody S. Burge, Jeffrey H. Burnett, Mark A. Elkins, and Timothy Violet against John L. Davis, individually and in his official capacity as Sheriff of Graves County, Kentucky. All of the plaintiffs are former employees of the Graves County Sheriff's Department. Plaintiffs sued pursuant to 42 USC 1983 claiming that their civil rights had been violated when they were not rehired by the Graves County Sheriff's Department upon Sheriff's Davis's assumption of office. The complaint seeks a judgment for compensatory damages in an amount of not less than \$500,000 per plaintiff, punitive damages in an amount of not less than \$500,000 per plaintiff, attorney's fees, costs, expert witness fees, injunctive relief requiring reinstatement of each plaintiff to his or her former position with back pay and benefits and all other relief to which plaintiffs may be entitled.

Sheriff Davis has answered the complaint and intends to vigorously contest the allegations thereof. The case is early in its progress and no discovery has been completed. This action involves complex legal theories in an area that is not entirely settled. Accordingly, it is impossible to evaluate the likelihood of an unfavorable outcome.

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN L. DAVIS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 1999

1) The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$945,877 To Protect Deposits

On December 8, 1999, \$945,877 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

John L. Davis, Graves County Sheriff's Response:

Will Comply.

2) The Sheriff Should Have Maintained Adequate Accounting Records Required By The Uniform System Of Accounts Established Under The Authority Of KRS 68.210

The Uniform System of Accounts established under the authority of KRS 68.210, requires the Sheriff to keep and maintain adequate accounting records. During the audit of the Sheriff for calendar year 1999, we noted the following:

- a) A Cash Disbursements Ledger was not maintained.
- b) A Daily Cash Checkout Sheet was used, but it did not include a line for overages and shortages.
- c) Receipts totaled for the day differed between the checkout sheet, cash receipts ledger, and bank deposit slip because receipts were not issued for all transactions.
- d) Categories listed on the daily receipts, daily cash checkout sheet, and receipts ledger were all different.

In order to assist the Sheriff, we prepared a sample daily checkout sheet, a cash receipts ledger with an improved format, and a cash disbursements ledger. We explained how all of these documents inter-related to the daily receipts and quarterly financial reports. We recommend that the Sheriff maintain accurate and complete financial records in accordance with the Department For Local Governments prescribed policies and procedures.

John L. Davis, Graves County Sheriff's Response:

Will comply for those not already in compliance.

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESSES:

The Sheriff should have maintained adequate accounting records pursuant to the Uniform System of Accounts established under the authority of KRS 68.210. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Sheriff's financial statement as of December 31, 1999, and have issued our report thereon dated July 25, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Graves County Sheriff's financial statement as of December 31, 1999, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$945,877 To Protect Deposits
- The Sheriff Should Have Maintained Adequate Accounting Records Required By The System Of Accounts Established Under The Authority Of KRS 68.210

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff Should Have Maintained Adequate Accounting Records Required By The Uniform System Of Accounts Established Under The Authority Of KRS 68.210

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, we consider a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 25, 2000

